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RBI to uphold its armour against inflation

The inflation in India for the month of July'2023 was at 7.44%, shockingly exceeding the market expectations. The inflation crossed the RBI's tolerance band of RBI of 2-6% after being in the range for the past four months. The high inflation was primarily led by food inflation that came in at 11.5%.

Inflation Dynamics

Vegetable's contribution to retail inflation surged to a 42-month high in July while that of tomatoes rose to 65-month high, unexpectedly taking the inflation rate beyond 7% figure for the first time in nearly a year. The delayed onset of monsoon and heavy rains in several parts of the country has impacted the vegetable productions and disrupted the supply chains for agriculture produce that has led to supply shortage of vegetables and the consequent price rise.

One third of the total Y-o-Y increase in the CPI in July can be attributed to the rise in vegetable prices, with more than half of it coming from tomatoes. The surge in the vegetable prices was 37.3%, with increase in tomato prices at 201.5% on yearly basis. Vegetables have a 6% weigh in the CPI basket and tomatoes, a sub item in vegetables has a weight of 0.57%. Excluding vegetables, inflation would have been 5.4% i.e. 200 bps lower than the 7.4%. Vegetables prices alone dragged up the retail inflation by over 200 basis points in July. Tomatoes have been the major factor in the surge due to massive shortage and consequent price rise. Besides vegetables, there was also a double digit inflation registered in cereals, pulses and spices. Even the milk inflation was at 8.3%.

High food inflation impacts poorest the most as food is a major portion of their consumption basket.

Though, food price pressures are expected to be transitory they will cause the inflation to remain high for the next 2-3 months. The pressures will ease after new crops arrive in the market. The Kharif crop sowing geared up in the previous days as rainfall recovered though monsoon's progress and distribution remains critical in the coming two months for food production and inflation.

Fiscal policy and government's supply side interventions should be the first line of defense in this case. Government has intervened to assuage the situation. Government has been proactive and has taken many measures to quell the inflationary pressures like allowing imports of tomatoes from Nepal, sale of tomatoes at subsidized prices, releasing the onions from buffer stocks and restrictions on hoarding etc.

Meanwhile, there is relief on the non-food front, where inflationary pressures are easing due to falling input cost pressures. The core inflation has been easing steadily month on month. For July'2023, core inflation was at 4.94% led by declining prices in Clothing & Footwear and Housing segment. The figure was at 5.1% in June'2023. We think core inflation is likely to remain sticky at around 5% for the next few months as the demand remains resilient in the economy.

Central Bank's Dilemma

The RBI delivered a hawkish tone in the recently concluded Monetary Policy Committee. RBI has revised the inflation projection sharply upwards by 100 bps to 6.2% from the earlier 5.2% and by 30 bps for FY'24 from 5.1% to 5.4%. For inflation to be 6.2% in Q2'FY'24, the inflation for next 2 months i.e. August & September will have to be below 6%, though that seems unlikely given the elevated food prices.

RBI is in a unique position as the inflationary pressures are due to supply side shocks and RBI has limited role to play in this dimension, but its inaction might lead to spiraling up of inflation expectations. Higher food prices can transmit to other non-food components and can elevate the core inflation components as well.

On the other hand, raising the interest rates to fight off food price inflation, when the consumption demand in the economy is tepid could result in even weaker growth.

Outlook

With the inflationary trends emerging, inflation is expected to remain high in the next 2-3 months. For the entire year, I expect the CPI inflation to average around 5.5 – 5.7%. Ultimately, headline inflation is expected to converge towards core inflation once the food-related shocks subside. Though, high global food prices and evolving El Nino conditions still pose upside risks.

Though softening of core inflation is reassuring, the RBI will maintain its hawkish tone and “withdrawal of accommodation” stance in the next 2 MPC meets in the current year as inflation is expected to stay elevated. The rate cut by RBI that was earlier expected by February'24, is now expected to be pushed forward to the next fiscal.

Deepak Singh

(Deputy General Manager)

2. HIGHLIGHTS OF RBI'S 3RD BI MONTHLY MONETARY POLICY

Highlights of the RBI's Monetary Policy announced on 10.08.2023 are given below:

A. Policy Rate	Existing	Now	Change
Policy Repo Rate	6.50%	6.50%	No Change
Standing Deposit Facility (SDF)	6.25%	6.25%	
MSF Rate	6.75%	6.75%	
Bank Rate	6.75%	6.75%	
B. Reserve Ratios			
Cash Reserve Ratio (CRR)	4.50%	4.50%	No Change
Statutory Liquidity Ratio (SLR)	18.0%	18.0%	

- a. **Policy Rates and Stance:** Reserve Bank of India's (RBI) monetary policy commission (MPC) kept the repo rate unchanged at 6.50%. The RBI had already hiked key benchmark lending rate by 250 basis points (bps) since an off-cycle 40 bps increase in repo in May 2022.
- b. **Stance:** RBI maintains its stance of withdrawal of accommodation.
- c. **Rationale:** MPC decided to remain focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.
- i. **Economic and Inflation Outlook**

Economy Outlook

- The momentum of overall economic activity in India continues to be positive. On the supply side, crop sowing has picked up with steady progress in the south-west monsoon.
- The temporal and spatial distribution of monsoon has, however, been uneven. Industrial activity is holding ground as is evident from the latest data on index of industrial production (IIP), core industries output and purchasing managers' index.
- According to the IMF, annual average global growth rate during 2000 to 2019 was 3.8 per cent. The total area sown under kharif crops was 0.4 per cent higher than a year ago as on August 4, 2023.
- The storage in major reservoirs on August was at 56 per cent of the full capacity, higher than the decadal average of 50 per cent, but below 60 per cent a year ago. On the other hand, commercial vehicle sales and domestic air cargo traffic contracted during Q1: 2023-24.
- Taking all these factors into consideration, GDP projections are as under where risks are evenly balanced:

RBI Projection GDP	Q1 FY24	Q2 FY'24	Q3 FY'24	Q4 FY'24	FY'24	Q1 FY'25
08.06.2023	8.0%	6.5%	6.0%	5.7%	6.5%	-
10.08.2023	8.0%↔	6.5%↔	6.0%↔	5.7%↔	6.5%↔	6.6%

Inflation Outlook

- The moderation in headline inflation to 4.6 per cent in Q1 of 2023-24 was in line with the projections set out in the June MPC meeting. There was a pick-up in headline inflation to 4.8 per cent in June due to an upturn in food inflation.
- On the positive side, inflation excluding food and fuel (core inflation) has softened by more than 100 basis points from its recent peak in January 2023. The month of July has witnessed accentuation of food inflation, primarily on account of vegetables. The spike in tomato prices and further increase in prices of cereals and pulses have contributed to this.
- Taking into account these factors, the projections for CPI Inflation is as under:

RBI Inflation Projection	Q2 FY'24	Q3 FY'24	Q4 FY'24	FY'24	Q1 FY'25
08.06.2023	5.2%	5.4%	5.2%	5.1%	-
10.08.2023	6.2%↑	5.7%↑	5.2%↔	5.4%↑	5.2%

ii. Liquidity and Financial Market Conditions

- The level of surplus liquidity in the system has gone up in the recent months on the back of return of ₹2000 banknotes to the banking system, RBI's surplus transfer to the government, pick up in government spending and capital inflows.
- The overall daily absorption under the liquidity adjustment facility (LAF) was ₹1.7 lakh crore in June and ₹1.8 lakh crore in July 2023.
- The efficient liquidity management requires continuous assessment of the level of surplus liquidity so that additional measures are taken as and when necessary to impound the element of excess liquidity. Accordingly, it has been decided that with effect from the fortnight beginning August 12, 2023, scheduled banks shall maintain an incremental cash reserve ratio (I-CRR) of 10 per cent on the increase in their net demand and time liabilities (NDTL) between May 19, 2023 and July 28, 2023.
- The ICRR will be reviewed on September 8, 2023 or earlier with a view to returning the impounded funds to the banking system ahead of the festival season. The existing cash reserve ratio (CRR) remains unchanged at 4.5 per cent.

Financial Stability.

- The Indian financial sector has been stable and resilient, as reflected in sustained growth in bank credit, low levels of non-performing assets and adequate capital and liquidity buffers.
- Macro stress tests for credit risk reveal that scheduled commercial banks (SCBs) would be able to comply with the minimum capital requirements even under severe stress scenarios. There is, however, no room for complacency because it is during tranquil and good times that vulnerabilities may creep in.

iii. External Sector

- India's current account deficit (CAD) was contained at 2.0 per cent of GDP in 2022-23 as compared with 1.2 per cent in 2021-22. Merchandise trade deficit has narrowed in Q1 of 2023-24 with contraction in imports exceeding contraction in exports.

- Services exports and remittances are, however, expected to provide cushion to the current account deficit. It is therefore expected that CAD to remain eminently manageable during the current financial year also.
- On the financing side, foreign portfolio investment (FPI) flows have remained buoyant in 2023-24 so far. Net FPI inflows have been US\$ 20.1 billion up to August 8, 2023 which is the highest since 2014-15. In the corresponding period of the previous year, there were net outflows of US\$ 12.6 billion.
- The Indian rupee has remained stable since January 2023. Foreign exchange reserves have crossed US\$ 600 billion mark.

iv. **Additional Measures**

I. Financial Markets

a) Review of Regulatory framework for Financial Benchmark Administrators

Considering the evolution of the domestic financial markets and global best practices, the regulations for financial benchmarks have been reviewed and it has been decided to put in place a comprehensive, risk-based framework covering administration of all benchmarks related to foreign exchange, interest rates, money markets and government securities such as benchmarks on certificate of deposits (CDs) rates, repo rates, and FX Options.

II. Regulation & Supervision

b) Review of Regulatory Framework for NBFC – Infrastructure Debt Funds (IDF-NBFCs)

- To enable the IDFs to play a greater role in financing of the infrastructure sector and to move towards the regulatory objective of harmonisation of regulations applicable to various categories of NBFCs, a review of the extant regulatory framework for IDFs has been undertaken in consultation with the Government of India.
- The revised framework envisages – (i) withdrawal of the requirement of a sponsor for the IDFs; (ii) permission to finance Toll Operate Transfer projects (ToT) as direct lenders, (iii) access to ECBs; and (iv) making tri-partite agreement optional for PPP projects. Detailed guidelines shall be issued shortly.

c) Responsible Conduct in Lending: Greater transparency in Interest Rate Reset of Equated Monthly Instalments (EMI) based Floating Interest Loans

- To address the issue, it is proposed to put in place a proper conduct framework to be implemented by all REs to address the issues faced by the borrowers.
- The framework envisages that lenders should clearly communicate with the borrowers for resetting the tenor and/or EMI, provide options of switching to fixed rate loans or foreclosure of loans, transparent disclosure of various charges incidental to the exercise of these options, and proper communication of key information to the borrowers.

d) Consolidation and harmonisation of instructions for Supervisory data submission

- The Reserve Bank of India has, from time to time, issued several guidelines and instructions to its supervised entities (SEs) viz. SCBs, NBFCs, UCBs, AIFIs etc. for submission of supervisory returns.

Certain issues are being faced by SEs while complying with these instructions due to changes in technology platforms, modes of submission, and variations in the return submission timeframes.

- In order to consolidate and harmonise the instructions for submission of applicable Supervisory Returns, provide greater clarity and reduce the compliance burden, it is proposed to consolidate all the existing instructions on submission of data into a single Master Direction which will be a single point of reference for all SEs.

III. Payment and Settlement Systems

e) Conversational payments in UPI

- As Artificial Intelligence (AI) is becoming increasingly integrated into the digital economy, conversational instructions hold immense potential in enhancing ease of use, and consequently reach, of the UPI system. It is, therefore, proposed to launch an innovative payment mode viz., “Conversational Payments” on UPI that will enable users to engage in a conversation with an AI-powered system to initiate and complete transactions in a safe and secure environment. This channel will be made available in both smartphones and feature phones-based UPI channels, thereby helping in the deepening of digital penetration in the country.

f) Offline payments in UPI

- To increase the speed of small value transactions on UPI, an on-device wallet called “UPI-Lite” was launched in September 2022 to optimise processing resources for banks, thereby reducing transaction failures.
- The product has gained traction and currently processes more than ten million transactions a month. To promote the use of UPI-Lite, it is proposed to facilitate offline transaction using Near Field Communication (NFC) technology.

g) Enhancing transactions limits for small value digital payments

- By removing the need for two-factor authentication for small value transactions, these channels enable faster, reliable, and contactless mode of payments for everyday small value payments, transit payments etc. Since then, there have been demands for enhancing these limits.
- To encourage wider adoption of this mode of payments and bring in more use cases into this mode, it is now proposed to increase the per transaction limit to ₹500. The overall limit is, however, retained at ₹2000 to contain the risks associated with relaxation of two-factor authentication. Instructions in this regard will be issued shortly.

IV. FinTech

h) Public Tech Platform for Frictionless Credit

- With rapid progress in digitalization, India has embraced the concept of digital public infrastructure which encourages FinTech companies and start-ups to create and provide innovative solutions in payments, credit, and other financial activities.
- Based on the learnings from the above pilots and expand the scope to all types of digital loans, a digital Public Tech Platform is being developed by the Reserve Bank Innovation Hub (RBIH).

3. HIGHLIGHTS OF WORLD ECONOMIC OUTLOOK- JULY'23

NEAR-TERM RESILIENCE, PERSISTENT CHALLENGES

IMF has come out with World Economic Outlook in July'23. Some of the major highlights of the Reports are given as under:

- Global growth is projected to fall from an estimated 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024. While the forecast for 2023 is modestly higher than predicted in the April 2023 World Economic Outlook (WEO), it remains weak by historical standards. The rise in central bank policy rates to fight inflation continues to weigh on economic activity.
- Global headline inflation is expected to fall from 8.7 percent in 2022 to 6.8 percent in 2023 and 5.2 percent in 2024. Underlying (core) inflation is projected to decline more gradually, and forecasts for inflation in 2024 have been revised upward.
- The recent resolution of the US debt ceiling standoff and, earlier this year, strong action by authorities to contain turbulence in US and Swiss banking, reduced the immediate risks of financial sector turmoil. This moderated adverse risks to the outlook.
- Financial sector turbulence could resume as markets adjust to further policy tightening by central banks. China's recovery could slow, in part as a result of unresolved real estate problems, with negative cross-border spillovers. Sovereign debt distress could spread to a wider group of economies. On the upside, inflation could fall faster than expected, reducing the need for tight monetary policy, and domestic demand could again prove more resilient.
- Improvements to the supply side of the economy would facilitate fiscal consolidation and a smoother decline of inflation toward target levels.
- **For emerging market and developing economies**, growth is projected to be broadly stable at 4.0 percent in 2023 and 4.1 percent 2024, with modest revisions of 0.1 percentage point for 2023 and –0.1 percentage point for 2024.
- Growth in emerging and developing Asia is on track to rise to 5.3 percent in 2023, then to moderate to 5.0 percent in 2024, reflecting a modest (0.1 percentage point) downward revision for 2024. The forecast for China is unchanged at 5.2 percent for 2023 and 4.5 percent for 2024, but with a change in composition.
- ***Growth in India is projected at 6.1 percent in 2023, a 0.2 percentage point upward revision compared with the April projection, reflecting momentum from stronger-than-expected growth in the fourth quarter of 2022 as a result of stronger domestic investment.***

Risks to the Outlook

Upside risks: Core inflation could fall faster than expected—from greater-than-expected pass-through of lower energy prices and a compression of profit margins to absorb cost increases, among other possible causes and declining job vacancies could play a strong role in easing labor markets, which would reduce the likelihood of unemployment having to rise to curb inflation.

Downside Risks

- **Inflation persists:** Tight labour markets and pass-through from past exchange rate depreciation could push up inflation and risk de-anchoring longer-term inflation expectations in a number of economies.
- **Financial markets reprice:** Financial markets have adjusted their expectations of monetary policy tightening upward since April but still expect less tightening than policymakers have signalled, raising the risk that unfavourable inflation data releases could—as in the first quarter of 2023—trigger a sudden rise in expectations regarding interest rates and falling asset prices.
- **China's recovery underperforms:** Recent developments shift to the downside the distribution of risks surrounding China's growth forecast, with negative potential implications for trading partners in the region and beyond.
- **Debt distress increases:** Global financial conditions have generally eased since the March 2023 episode of banking stress, but borrowing costs for emerging market and developing economies remain high, constraining room for priority spending and raising the risk of debt distress.
- **Geo-economic fragmentation deepens:** The ongoing risk that the world economy will separate into blocs amid the war in Ukraine and other geopolitical tensions could intensify, with more restrictions on trade (in particular that in strategic goods, such as critical minerals); cross-border movements of capital, technology, and workers; and international payments. Such developments could contribute to additional volatility in commodity prices and hamper multilateral cooperation on providing global public goods.

Policy Priorities

- **Conquer inflation:** Central banks in economies with elevated and persistent core inflation should continue to clearly signal their commitment to reducing inflation. A restrictive stance—with real rates above neutral—is needed until there are clear signs that underlying inflation is cooling.
- **Maintain financial stability and prepare for stress:** The fast pace of monetary policy tightening continues to put the financial sector under pressure. Strengthened supervision (by implementing Basel III and removing forbearance measures) and monitoring risks to anticipate further episodes of banking sector stress is warranted.
- **Rebuild fiscal buffers while protecting the vulnerable:** With fiscal deficits and government debt above pre-pandemic levels, credible medium-term fiscal consolidation is in many cases needed to restore budgetary room for maneuver and ensure debt sustainability.
- **Ease the funding squeeze for developing and low-income countries:** Large short-term external financing needs are stretching the ability of numerous emerging market economies and low-income countries to service their debt. Sovereign spreads remain historically elevated, impeding market access for many economies reliant on short-term borrowing.
- **Enhance the supply side and strengthen resilience to climate change:** Reforms that loosen labour markets—by encouraging participation and reducing job search and matching frictions—would facilitate fiscal consolidation and a smoother decline in inflation toward target levels.

4. GIST OF SPEECH ON GLOBAL ECONOMY: CHALLENGES, OPPORTUNITIES AND WAY FORWARD

Shri Shaktikanta Das, Governor of the Reserve Bank of India (RBI), delivered a speech at a seminar on Global Economy: Challenges, Opportunities and Way Forward organised by the Ministry of Finance, Government of India and the RBI, on August 11, 2023 in Mumbai. The following are main highlights of the said speech.

- **Role and contribution of India in the global economy:** Mainly on the backdrop of the G20 agenda and the post-pandemic recovery India's role in the Global Economy is very important. It has been noted that India is the third-largest economy in terms of purchasing power parity and the sixth-largest in nominal terms, with a share of about 6.8 per cent and 3.3 per cent of global GDP, respectively. India has been one of the fastest-growing major economies in the world, with an average growth rate of 6.8 per cent during 2014-19.
- **Challenges faced by the global economy:** Global economy is saddled with challenges such as rising inflation, uneven vaccination, climate change, cybersecurity, and geopolitical tensions. The global inflation has surged to its highest level since 2008, driven by supply-side shocks, commodity price increases, and pent-up demand. Further, climate change is a looming threat that requires urgent and collective action to mitigate its adverse effects. There is growing incidents of cyberattacks and data breaches, which undermine trust and stability in the digital economy. Besides geopolitical tensions and trade disputes are already there which could hamper global growth and cooperation.
- **Opportunities for the global economy:** However, there exists opportunities such as digital transformation, green growth, financial inclusion, multilateral cooperation, and structural reforms. Digital technologies have enabled new business models, enhanced productivity, and improved access to services during the pandemic. Financial inclusion is a means to reduce poverty and inequality, which can be achieved by expanding digital payments, microfinance, and financial literacy. Multilateral cooperation is needed to address global challenges and to foster trust and solidarity among nations.
- **Way forward for the global economy:** Some way forward such as strengthening policy coordination, ensuring adequate liquidity, promoting trade and investment, addressing inequality and poverty, and enhancing resilience and sustainability has also been highlighted in the address.
- In conclusion, India's commitment to play a constructive role in the global economic governance and to foster a more inclusive, resilient, and sustainable world has been reaffirmed. Further, India's readiness to share its experience and expertise with other countries in areas such as digital transformation, green growth, financial inclusion, vaccine production, and disaster management has also been highlighted.

5. CLASSROOM – COMPARATIVE ADVANTAGE

Comparative Advantage is the situation where a nation can produce a particular good at lower opportunity cost. It is one of the basic principles of Economics. The nations which are at comparative advantage of producing some goods should be specialising in the production of such goods so that economy flourish and factors of production may be utilised effectively. Further, it is also mutually beneficial for the countries involved in international trade.

Suppose Country A has a comparative advantage in producing Clothes while Country B has comparative advantage in producing wine. Both countries will get benefitted by specialising in their respective areas and trading. Different countries excel in different industries due to their unique strengths. For example, China is known for manufacturing, the United States for Technology and Saudi Arabia for Oil production.

Though an old concept, but this theory of International Trade is relevant even today. This continues to shape the international trade and economic policies. In the increasingly interconnected world, countries still specialise in goods and services in which they are relatively more efficient, allowing the efficient resource allocation and increased overall output.

Global supply chains and technological advancements have further amplified the importance of comparative advantage. Countries can leverage their unique strengths to participate in complex production networks, leading to cost effective and innovative products.

This concept also plays an important role in negotiations for trade agreements and policy decisions aimed at optimising international trade relationships. While the fundamental concept of comparative advantage will continue to be there, its application might evolve as new technologies, environmental concerns and economic dynamics shape the global landscape.

In India's context, it has been able to leverage the comparative advantage in several sectors to drive economic growth and global trade. India's skilled labour force, lower wage rates and a large English speaking population have allowed to excel in Information Technology (IT) services, Business Process Outsourcing (BPO) and Software Development.

Additionally India has a strong pharmaceutical industry and is a leading player in generic drug manufacturing. Also India's rich agricultural resources have led to a comparative advantage in producing various agricultural products such as rice, wheat, spices and textiles. The diversity of its climate and geography enables India to cultivate a wide range of crops and commodities.

Surabhi Tewari

Senior Manager- Economic

6. GIST OF LATEST RBI CIRCULARS FOR BANKS

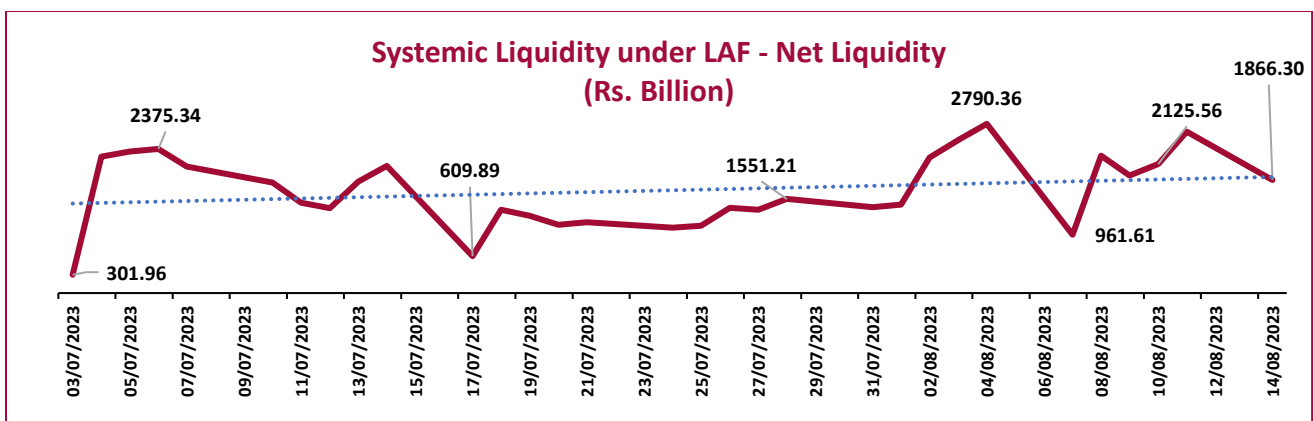
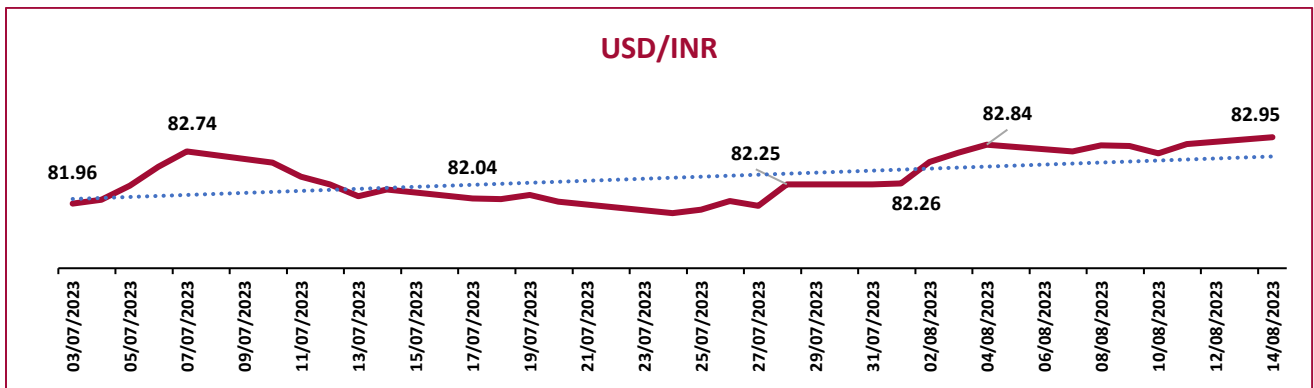
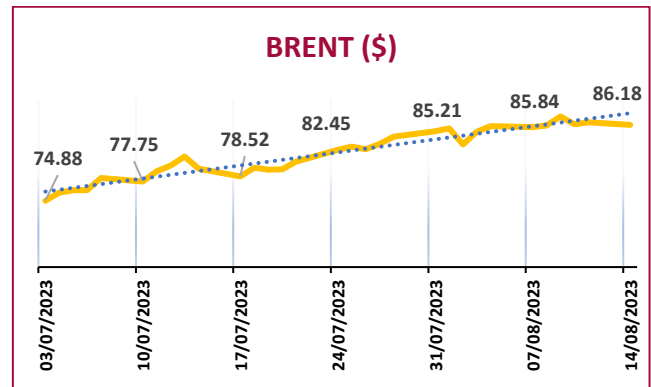
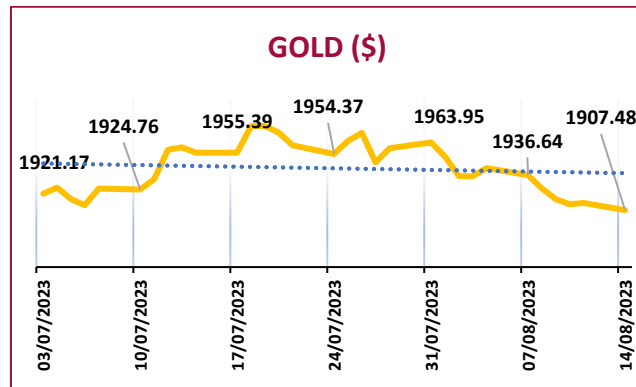
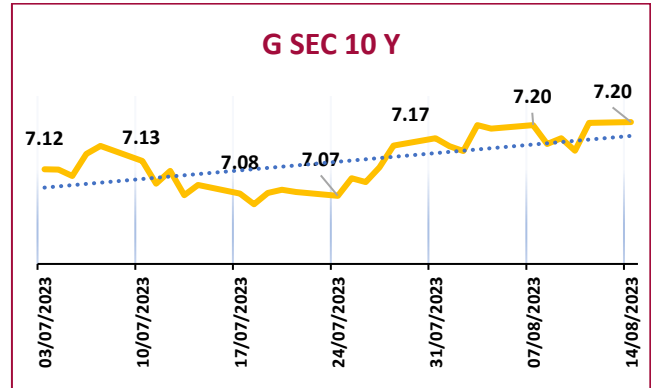
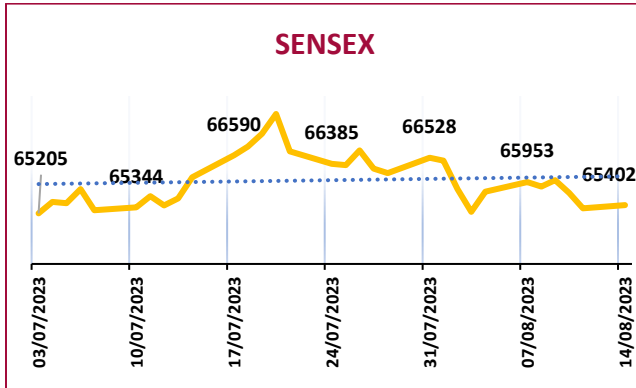
Date of Circular	10-August-2023
Ref. No.	RBI/2023-24/52 DOR.RET.REC.29/12.01.001/2023-24
Subject	Reserve Bank of India Act, 1934 - Section 42(1A) - Requirement for maintaining additional CRR

Gist: Under Section 42(1) of the Reserve Bank of India Act, 1934, all Scheduled Banks are required to maintain with Reserve Bank of India a Cash Reserve Ratio (CRR) of 4.50 per cent of Net Demand and Time Liabilities (NDTL).

On a review of the current liquidity conditions, it has been decided to issue a directive under Section 42(1A) of the Reserve Bank of India Act, 1934 requiring all Scheduled Commercial Banks / Regional Rural Banks / all Scheduled Primary (Urban) Co-operative Banks / all Scheduled State Co-operative Banks to maintain with the Reserve Bank of India, effective from the fortnight beginning August 12, 2023, an incremental CRR (I-CRR) of 10 per cent on the increase in NDTL between May 19, 2023 and July 28, 2023. The I-CRR will be reviewed on September 8, 2023 or earlier.

(26th July '23-14th August '23)

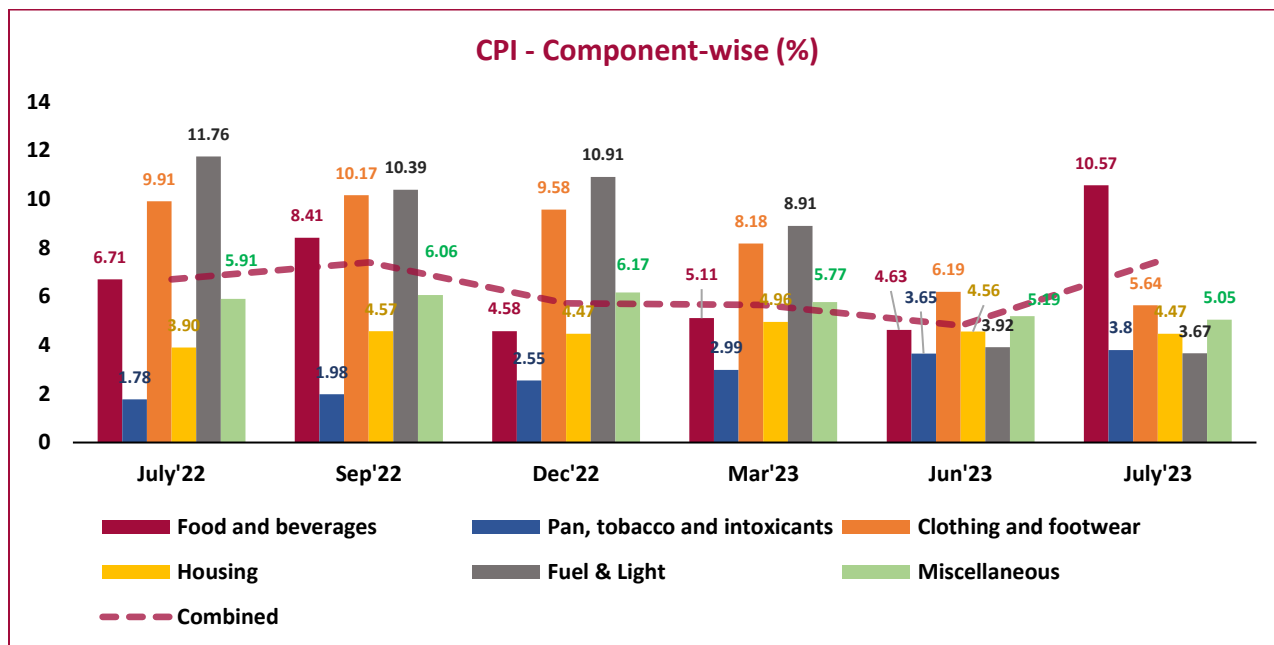
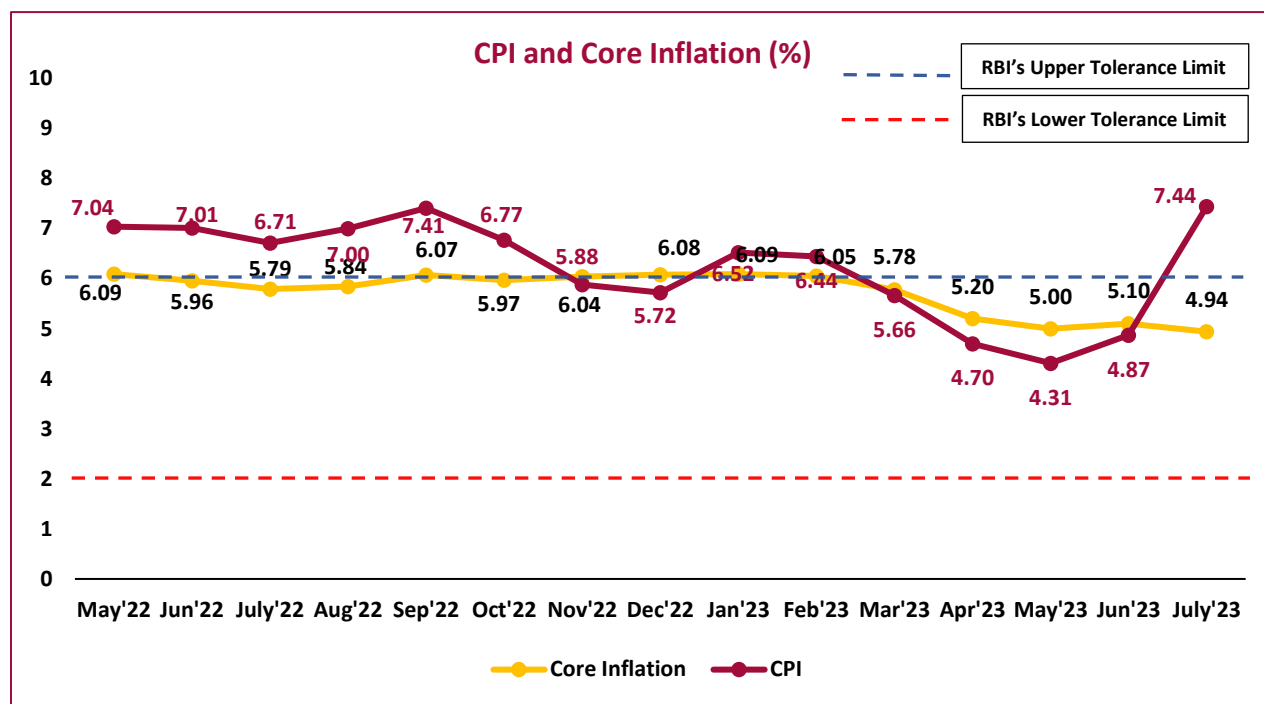
7. DAILY ECONOMIC INDICATORS



8. MONTHLY & FORTNIGHTLY ECONOMIC INDICATORS

CONSUMER PRICE INDEX (CPI)

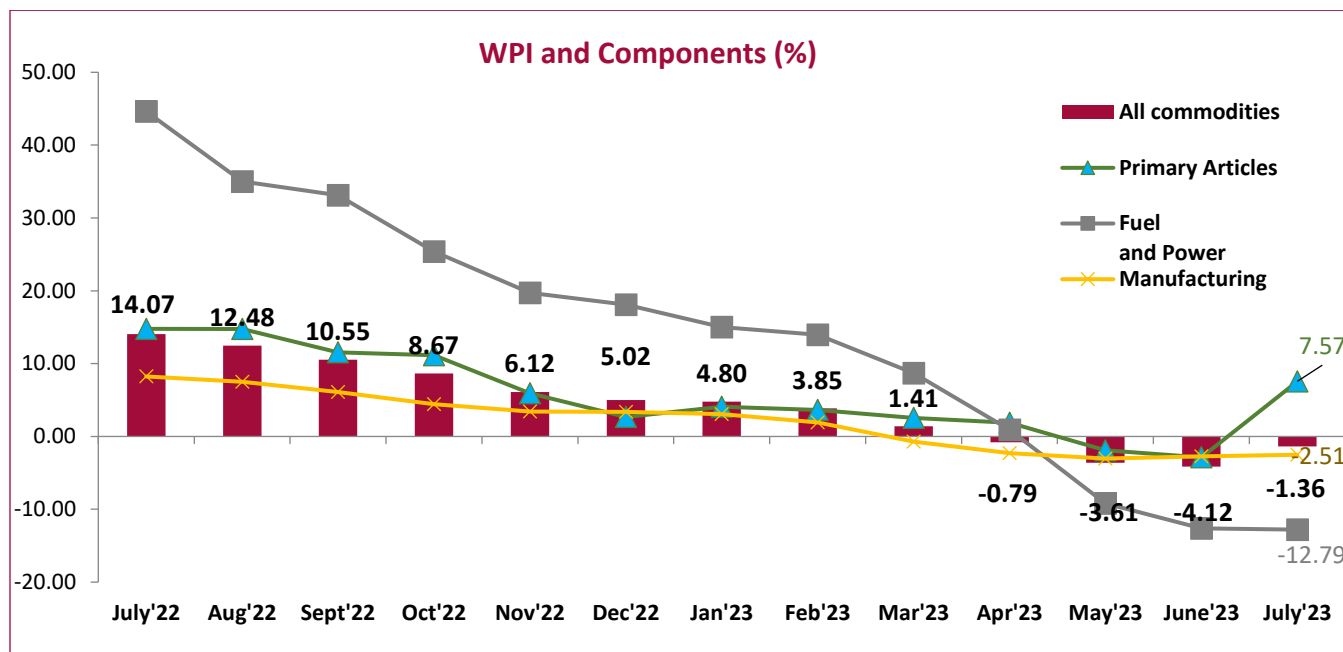
Retail Inflation surges and breaches RBI's tolerance band



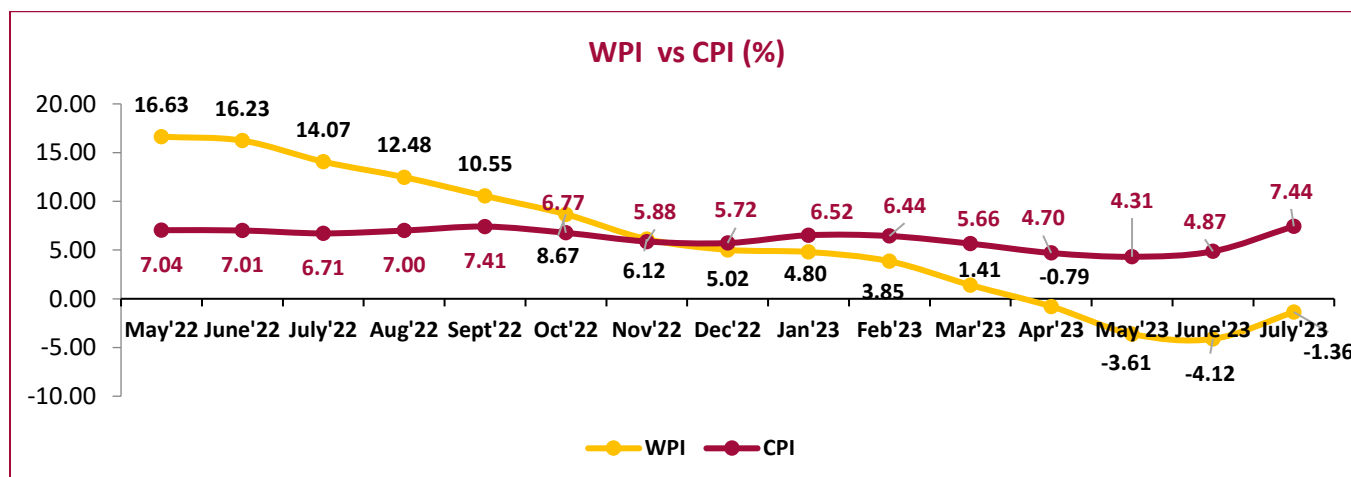
India's Retail Inflation has surged once again and breached the upper tolerance level of 6 per cent. The hike was driven mainly by rise in food prices. Food and Beverages showed an increase of 10.57 per cent.

WHOLESALE PRICE INDEX (WPI)

Deflation continues however at slower pace



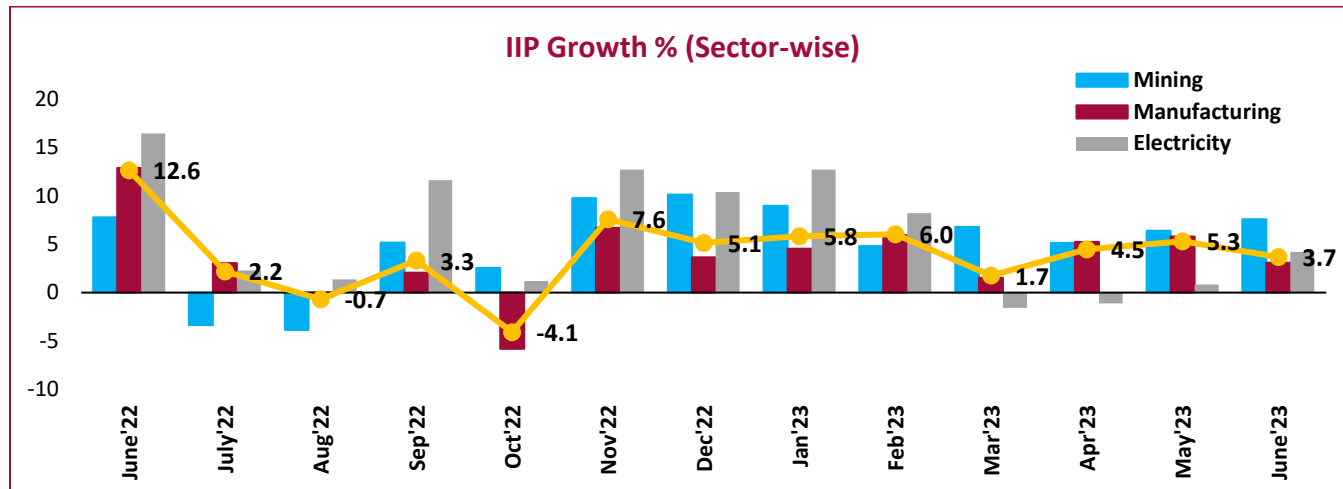
WPI Inflation (%)	Primary Articles		Fuel & Power		Manufactured Products		Food Articles (Part of Primary Articles)		All Commodities	
Weights	22.62%		13.15%		64.23%		15.26%		100%	
	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023
May	18.84	-1.90	49.00	-9.17	10.27	-3.03	11.78	1.63	16.63	-3.61
June	18.63	-2.87	50.95	-12.63	9.35	-2.71	13.71	1.32	16.23	-4.12
July	14.78	7.57	44.62	-12.79	8.24	-2.51	10.77	14.25	14.07	-1.36



India's wholesale prices remained in the deflationary zone for the fourth month in a row in July, although the Wholesale Price Index (WPI) inflation rose to a three-month high of -1.36 per cent on a mammoth rise in vegetable prices.

INDEX OF INDUSTRIAL PRODUCTION (IIP) & CORE SECTORS

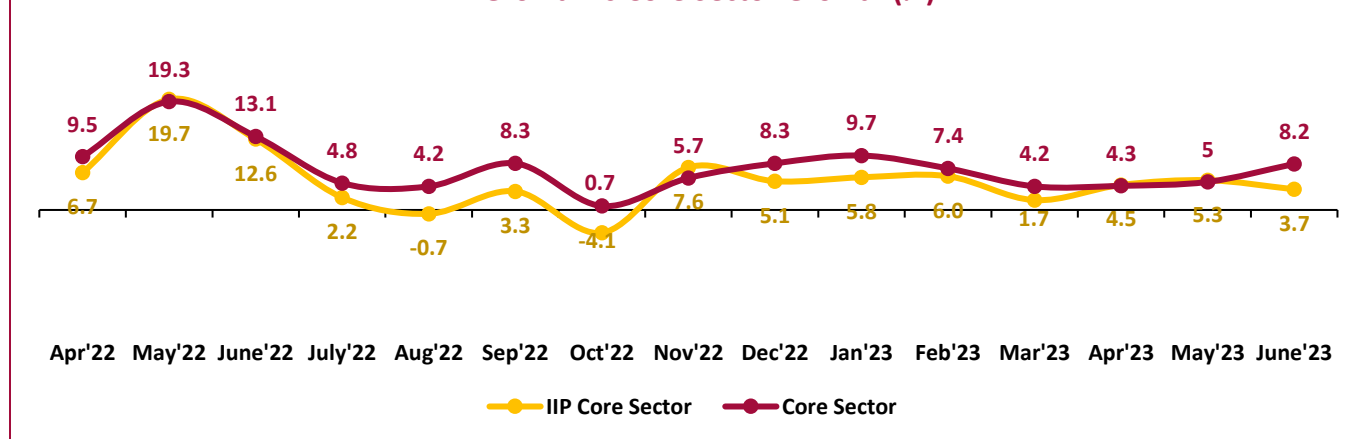
IIP growth slows down to 3.7 per cent



IIP growth % (Usage-wise)

Component	Weight	June'22	Mar'23	May'23	June'23
Primary Goods	34.05%	13.8	3.3	3.6	5.2
Capital Goods	8.22%	28.6	9.1	8.1	2.2
Intermediate Goods	17.22%	10.5	1.8	3.0	4.5
Infra/Construction Goods	12.34%	9.4	7.0	11.3	11.3
Consumer Durables	12.84%	25.2	-8.0	1.2	-6.9
Consumer Non- Durables	15.33%	2.9	-1.9	8.4	1.2

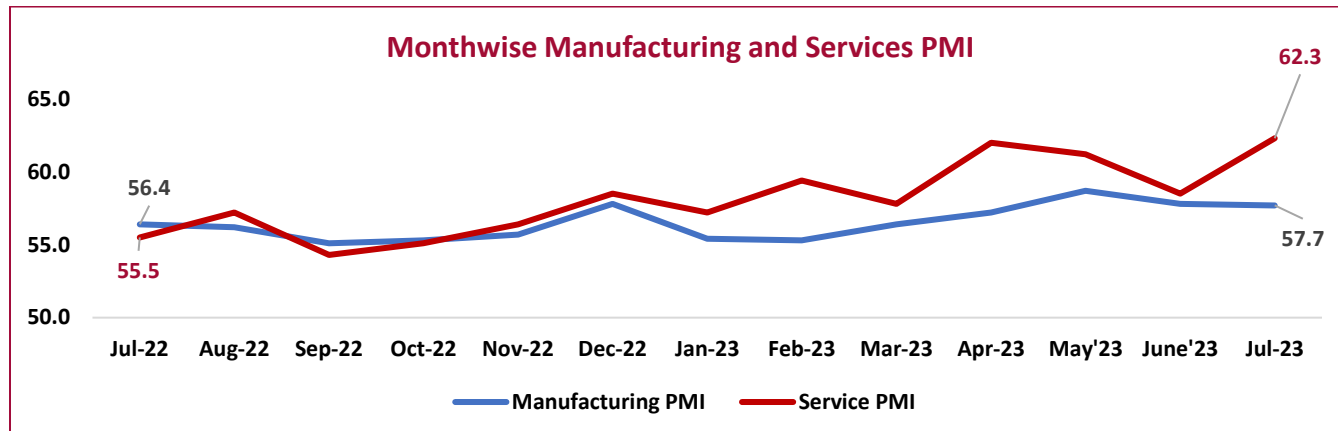
IIP Growth vs Core Sector Growth (%)



IIP growth slowed down to 3.7 per cent in June'23 after showing the growth of 5.3 per cent in May'23. The growth was dragged down mainly manufacturing which fell to 3.1 per cent vis-à-vis 5.8 per cent in May'23. Growth in Mining and Electricity have picked up due to slowdown in rainfall in June month which proved favourable for Mining activities. It is expected that IIP growth to witness an uptick to 4-6 percent in July'23.

PURCHASING MANAGERS' INDEX (PMI)

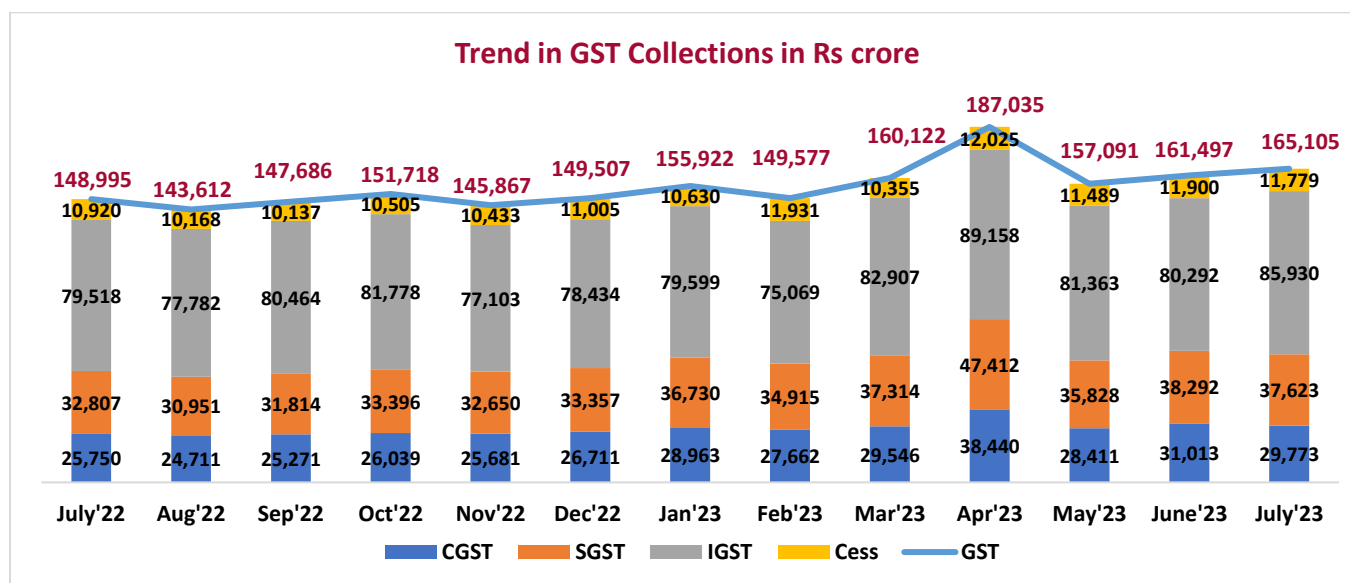
Services PMI shows robust jump Manufacturing PMI slows down marginally



The S&P Global India Services PMI unexpectedly rose to 62.3 in July 2023 from June's three-month low of 58.5, thereby pointing to the highest expansion in over 13 years, boosted by rises in new orders, mainly in international sales. The S&P Global India Manufacturing PMI ticked lower to a 3-month low of 57.7 in July 2023 from 57.8 in June. Output expanded the least in 3 months but the rate of rise remained substantial as it continuously rose since July 2021. Also, buying levels rose slightly softer than the 12-year peak in May.

GOODS AND SERVICES TAX (GST)

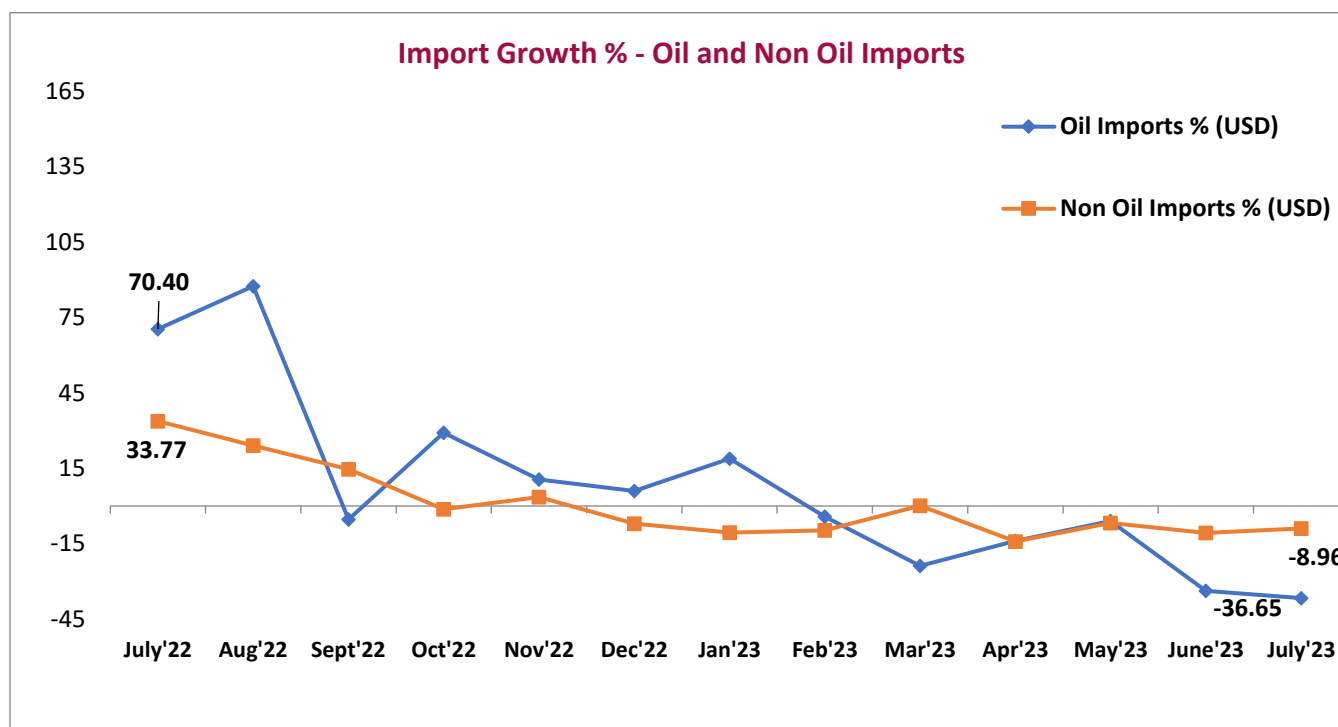
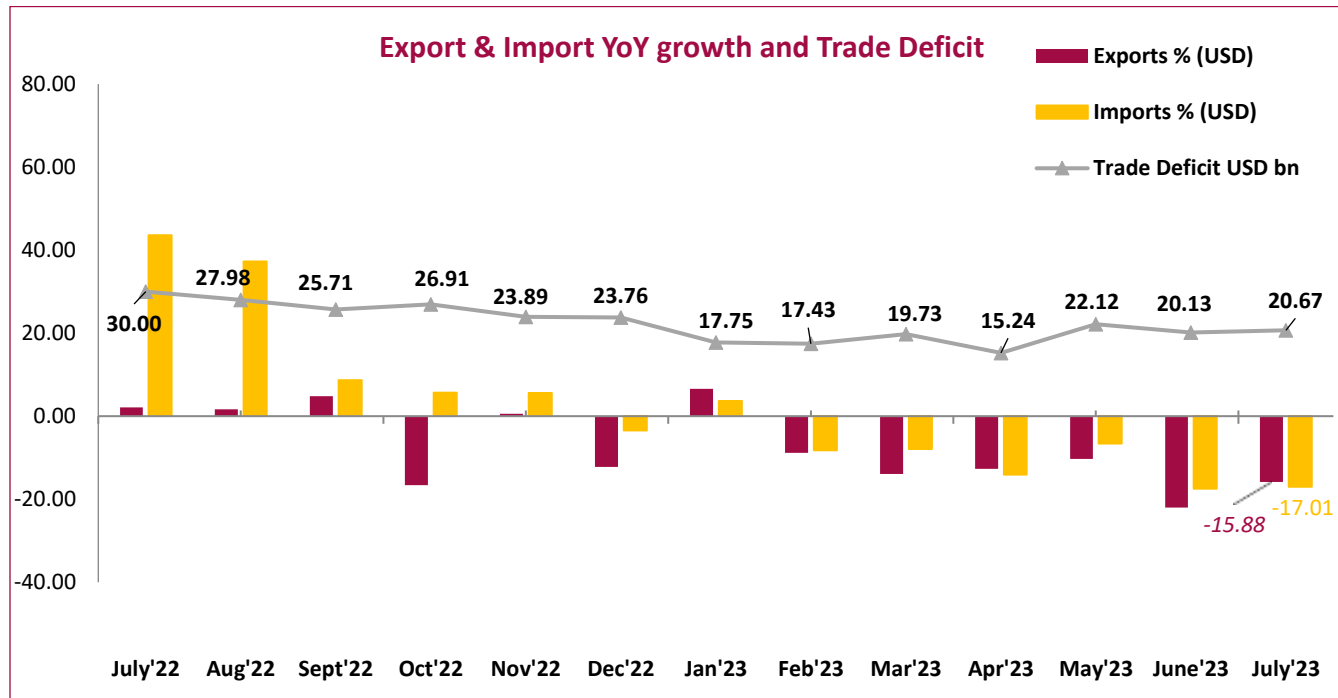
GST Collections rises by 11 per cent and crosses Rs. 1.65 Lakh Crore mark



Goods and Services Tax (GST) for the month of July stood at Rs.1.65 Lakh Crore, registering growth of 11 per cent from a year earlier. The GST collections crossed the Rs.1.60 Lakh Crore mark for the fifth time. Of the total collections, Central GST is Rs.29,773 Crore, State GST is Rs.37,623 Crore and Integrated GST is Rs.85,930 Crore including Rs.41,239 Crore collected on import of goods.

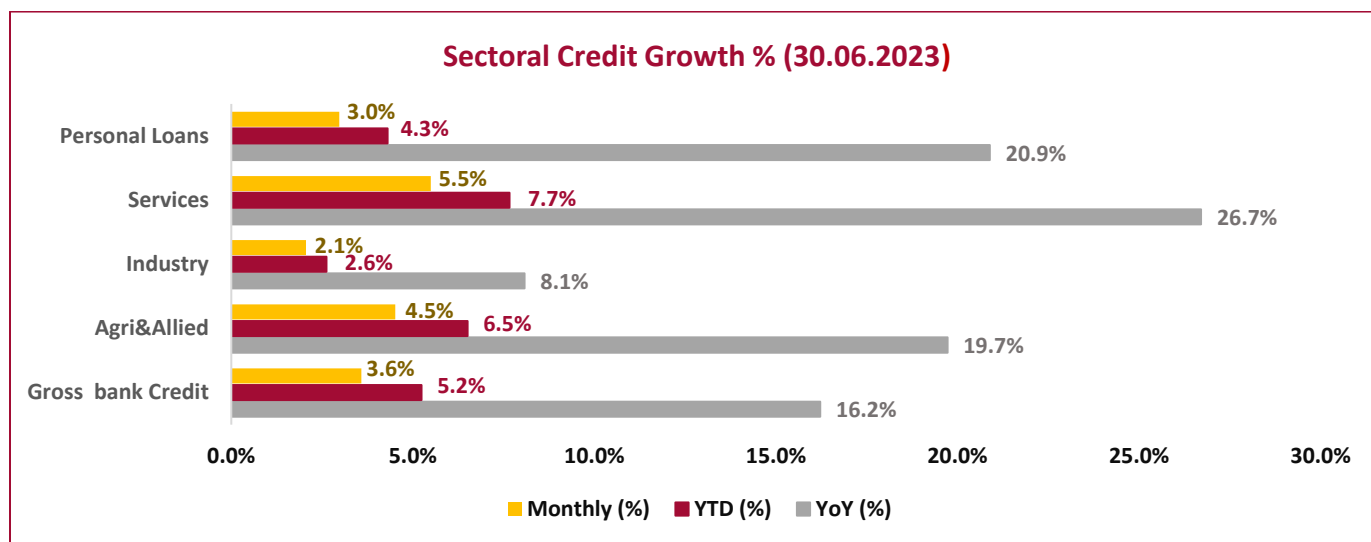
FOREIGN TRADE

Trade deficit widens to USD 20.67 Billion



India's merchandise trade deficit in June widened to \$20.67 billion in July from \$20.13 billion in June. Merchandise trade exports fell to a 9-month low of \$32.25 billion in July registering decline of 16 per cent along with imports registering a fall of 17 percent to \$52.92 billion in the same period.

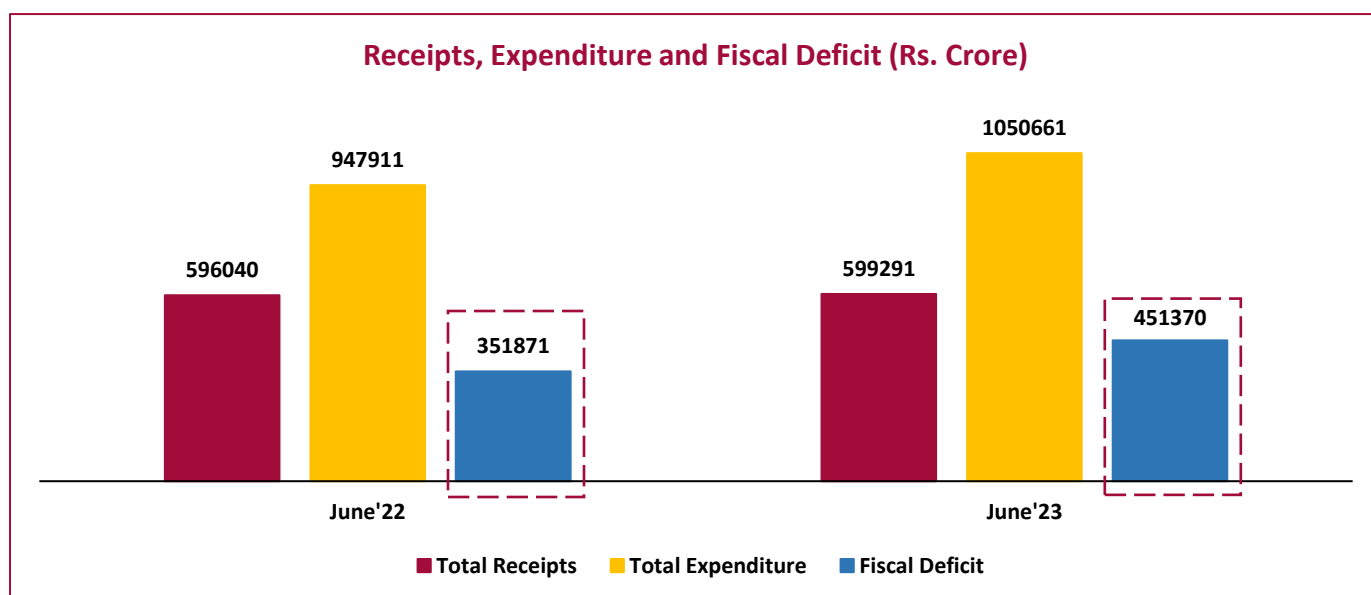
SECTORAL CREDIT



BANK DEPOSIT AND CREDIT

Parameter (Rs. Lakh Crore)	29.07.22	24.03.23	14.07.23	28.07.23	YoY (%)	YTD (%)	Fortnightly (%)
Deposits	169.72	180.44	190.31	191.67	12.9%	6.2%	0.7%
Advances	123.69	136.75	147.62	148.03	19.7%	8.2%	0.3%
Business	293.42	317.19	337.93	339.70	15.8%	7.1%	0.5%

FISCAL DEFICIT

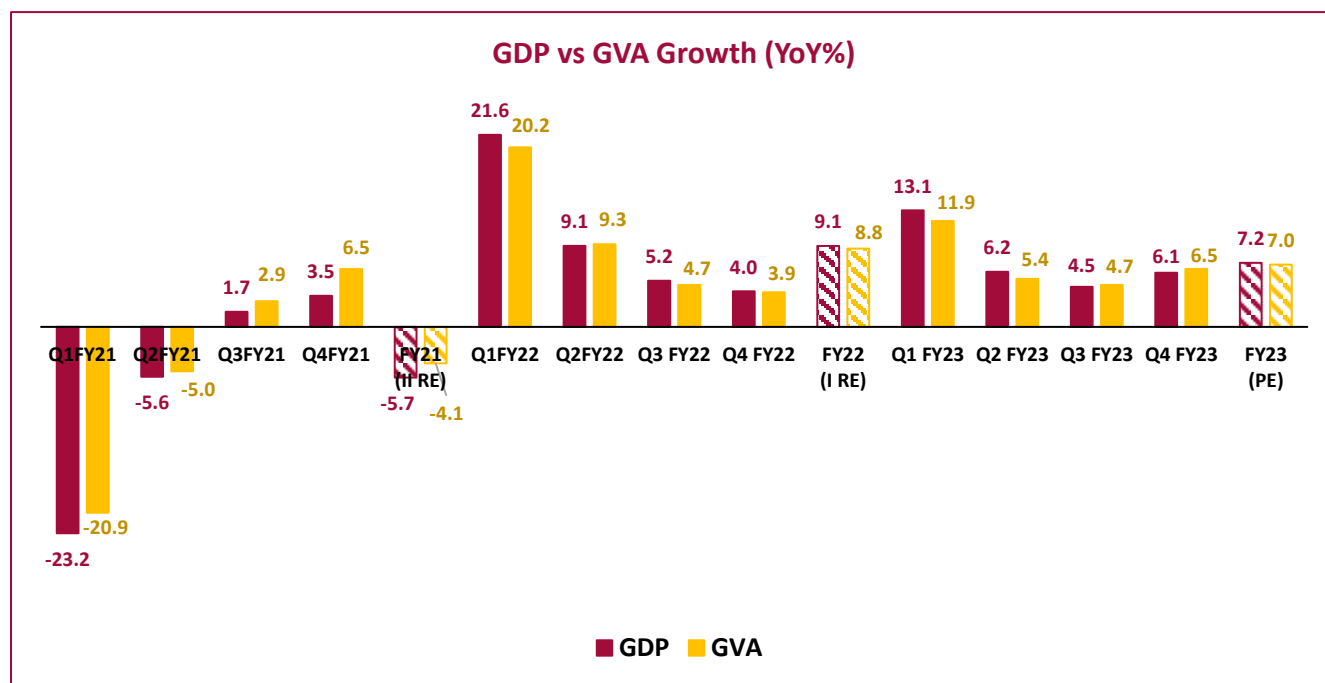


The fiscal deficit for the month of June 2023 is 25.3% of annual estimates.

9. QUARTERLY ECONOMIC INDICATORS

GROSS DOMESTIC PRODUCT (GDP) & GROSS VALUE ADDED (GVA)

India witnesses strong GDP growth

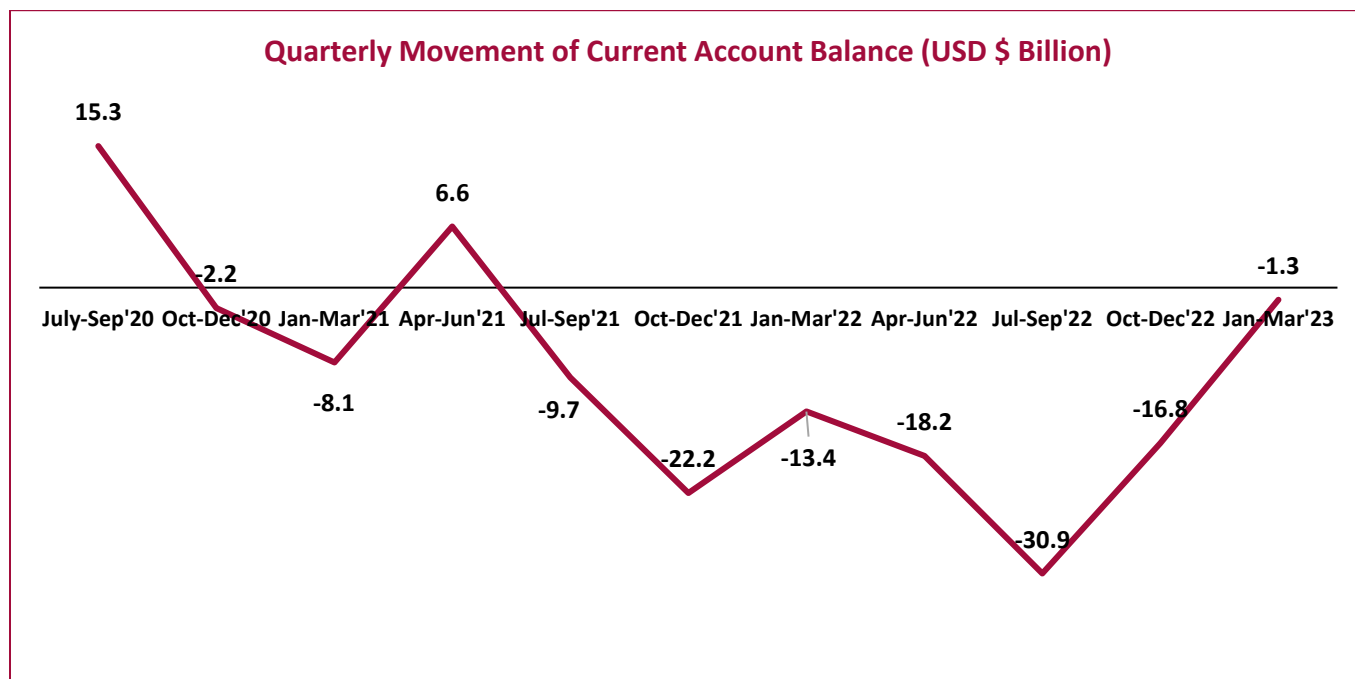


Gross Domestic Product (GDP) for FY23 grew by 7.2 per cent as compared to a growth of 9.1 per cent in the previous year. Also, Real Gross Value Added (GVA) at basic prices in FY23 grew by 7.0 per cent in comparison to a growth of 8.8 per cent in FY22. For the last quarter of FY23, GDP grew by 6.1 per cent while GVA grew by 6.5 per cent.

INDIA'S GDP OUTLOOK OF VARIOUS AGENCIES

Agency	FY24
RBI	6.5%
World Bank	6.3%
IMF	6.1%
ADB	6.4%
Economic Survey	6.5%

CURRENT ACCOUNT DEFICIT



The Current Account Deficit declined to \$ 1.3 billion in the March quarter of FY23 against a deficit of \$16.8 billion in the preceding three months. It is 0.2% of GDP.

10. GLOBAL INTEREST RATES

Central Banks	Countries	Latest Interest Rate (%)	Last Change	Next Meeting Date
Bank of Japan	Japan	-0.10	Jan 29, 2016 (-20 bps)	Sep 22, 2023
European Central Bank (ECB)	Europe	4.25	Jul 27, 2023 (25 bps)	Sep 14, 2023
Federal Reserve	U.S.A	5.50	Jul 26, 2023 (25 bps)	Sep 20, 2023
Bank of England	U.K	5.25	Aug 03, 2023 (25 bps)	Sep 21, 2023
Peoples Bank of China	China	3.45	Aug 21, 2023 (-10 bps)	-
Reserve Bank of India	India	6.50	Feb 08, 2023 (25 bps)	Oct 06, 2023

11. INDUSTRY OUTLOOK

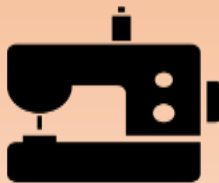
Textile

The textile industry in India is one of the oldest and largest industries, contributing significantly to the country's economy. It encompasses a wide range of activities including manufacturing of fabrics, apparel, and various textile products. India is one of the leading producers of cotton, silk, jute, and synthetic fibers, and it is known for its diverse traditional textiles like sarees and handloom fabrics. The industry has faced challenges such as global competition and environmental concerns, but it continues to play a crucial role in India's economic growth and employment generation.

Keeping in view the importance of the industry in Economy and its contribution in employment generation, the Government of India has been taking initiatives to promote and encourage the various industries falling under Textile. One such recent initiative involves PM MITRA Park at various locations in India which aim at increasing the competitiveness of Indian Textile Industry. In the Union Budget 2023-24, the Government has allocated more than Rs. 4000 Crore for Textile Sector.

Apart from this, Government has launched the Production Linked Incentive (PLI) Scheme to promote production of Man Made Fibres (MMF) Apparel, MMF Fabrics and Products of Technical Textiles in the country to enable Textiles Industry to achieve size and scale and to become competitive. Further 100 percent Foreign Direct Investment (FDI) is also allowed in Textile. Apart from this, huge funds in schemes such as Rs. 900 crore (US\$ 109.99 million) for Amended Technology Upgradation Fund Scheme (ATUFS) have been released by the Government in the Union Budget of 2023-24 to encourage more private equity investments and provide employment.

All in all, the future of the Indian textiles industry is pretty bright very well aided by strong domestic consumption as well as export demand. Already concrete steps have been taken towards promoting the industry. The growth in textiles will be driven by growing household income, increasing population and increasing demand by sectors like housing, hospitality, healthcare, etc.



12. EXTRACTS FROM NEWS ON BANKING AND FINANCIAL EVENTS

1. **Digital economy to contribute over 20% of GDP by 2026: Chandrasekhar (BS, 17.08.2023)**
 - Union Minister of State for Electronics and Information Technology Rajeev Chandrasekhar forecast that the digital economy will contribute more than 20 per cent of the country's GDP in 2026.
 - Addressing the 'G20 Digital Innovation Alliance Summit' here, he said India is a preeminent nation that adopted technology very fast and has started offering solutions to the world.
2. **RBI launches Public Tech Platform for Frictionless Credit (PTPFC) pilot to offer information to lenders (ET, 17.08.2023)**
 - The Reserve Bank of India (RBI) commenced the pilot for a Public Tech Platform for Frictionless Credit (PTPFC). The Platform is being developed by Reserve Bank Innovation Hub (RBIH), a wholly owned subsidiary of the RBI that aims to promote inclusive, access to financial services by leveraging state-of-the-art technology.
 - The PTPFC will be enabling the disbursal of non-collateral based loans for Micro, Small and Medium Enterprises (MSMEs), Kisan Credit Card loans up to Rs 1.6 lakh, dairy loans, personal loans, and home loans.
 - The digital platform allows central and state government entities, banks, credit information companies, and digital identity authorities to share information. This allows the various stakeholders in the lending process to collate the data for each borrower faster leading to speedier processing of loan requests.
3. **Banks' lending to NBFCs jumps 35 per cent to Rs.14.2 lakh crore in June: Report (ET, 16.08.2023)**
 - Credit exposure of banks to NBFCs rose by a robust 35.1 per cent on-year to Rs 14.2 lakh crore in June, indicating non-banking finance firms' decreased reliance on international borrowings.
 - However, the report noted that the merger of HDFC with HDFC Bank, effective July 1, will lead to a reduction in the share and also the exposure of banks to NBFCs, as HDFC's bank borrowings will undergo a temporary reclassification, resulting in a shift of exposure to HDFC Bank.
4. **RBI to launch pilot for 'Public Tech Platform' on Aug 17 (ET, 14.08.2023)**
 - The Reserve Bank will launch a pilot project for 'Public Tech Platform' that seeks to facilitate credit through seamless flow of required digital information to lenders. During the pilot, the platform would focus on products such as Kisan Credit Card loans of up to Rs.1.6 lakh per borrower, dairy loans, MSME loans (without collateral), personal loans and home loans through participating banks, the central bank said in a statement.
 - The platform would enable linkage with services such as Aadhaar e-KYC, land records from on-boarded state governments (Madhya Pradesh, Tamil Nadu, Karnataka, Uttar Pradesh, and Maharashtra), satellite data, PAN validation, Aadhaar e-signing and house/property search data, among others.

5. **Retail inflation soars to 15-mnth high; exports contract for sixth month (BS, 14.08.2023)**
 - Macroeconomic indicators for July delivered a double whammy, with retail inflation galloping to a 15-month high on the back of skyrocketing vegetable prices and the value of merchandise exports falling to a nine-month low amid tepid global demand.
 - The Consumer Price Index (CPI)-based inflation rate jumped to 7.44 per cent year-on-year (Y-o-Y) in July from 4.87 per cent in the preceding month, data released by the National Statistical Office showed. Retail inflation also breached the Reserve Bank of India's upper tolerance level of 6 per cent for the first time in five months.
6. **RBI deputy Guv asks banks to double down on recovery efforts, limit losses (BS, 10.08.2023)**
 - Reserve Bank Deputy Governor Swaminathan J asked banks to double down on recovery efforts to limit the losses from the write-off of loans, saying it will help them post higher profits.
 - The DG said an NPA account, which is over 4-5 years old will typically have witnessed a diminishing of the realizable value of the securities and one has to look at the age of the NPA and the availability or absence of underlying security.
7. **RBI maintains status quo on rates, remains watchful (FE, 10.08.2023)**
 - In the third bi-monthly monetary policy of FY24, the RBI kept the repo rate unchanged at 6.50%. Since May 2022, there has been a cumulative rate hike of 250 basis points undertaken by the MPC which is working its way into the economy as per the RBI.
- As per RBI, the monetary transmission is still underway, the MPC decided to remain focused on withdrawal of accommodation to ensure that inflation aligns to the 4 per cent target, while supporting growth.
8. **RBI raises per transaction limit for UPI Lite to Rs.500 from Rs.200 to promote digital transaction (FE, 10.08.2023)**
 - Reserve Bank proposed to increase the per transaction payment limit to Rs 500 for UPI Lite in offline mode and announced other measures to further deepen the reach and use of digital payments in the country.
 - By removing the need for two-factor authentication for small value transactions, these channels enable faster, reliable, and contactless mode of payments for everyday small value payments, transit payments etc.
 - The overall limit is, however, retained at Rs.2,000 to contain the risks associated with relaxation of two-factor authentication and instructions in this regard will be issued shortly, he added.
9. **PSBs have to be very fast with public dealing: Parliamentary committee (BS, 08.08.2023)**
 - Citing increased workload, a parliamentary committee has said public sector banks have to be very fast with public dealing besides being absolutely updated on the latest technology.
 - In its latest report, the panel also said the pattern of recruitment examination needs to be changed from time to time taking into account the nature of the work of the bankers so that accuracy and speed of the prospective candidates are properly evaluated.

13. DATA SOURCES

- Reserve Bank of India (RBI)
- Ministry of Statistics and Programme Implementation (MOSPI)
- Office of Economic Adviser
- Ministry of Commerce and Industry, Department Of Commerce
- S & P Global
- Press Information Bureau
- GST Council
- Websites of major Central Banks
- Controller General of Accounts (CGA)
- Petroleum Planning & Analysis Cell (PPAC)
- Investing.com
- News from Business Standard, Financial Express, Economic Times, The Mint
- Cogencis

“

QUOTE OF THE MONTH

"Today a reader, tomorrow a leader."
- Margaret Fuller

”



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